



THE INVESTMENT FUNDS INSTITUTE OF CANADA
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

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Dear Sirs / Madames:

RE: Comments on Consultation on Possible Options for the Incorporation of Individual Representatives of Registered Dealers and Advisers in Canada

The Investment Funds Institute of Canada ("IFIC") is the voice of Canada's investment funds industry, including fund managers, distributors and industry service organizations. We are writing to provide our comments with respect to the *Consultation on Possible Options for the Incorporation of Individual Representatives of Registered Dealers and Advisers in Canada* ("Consultation Paper").

General Comments

IFIC has supported the Mutual Fund Dealers Association of Canada ("MFDA") in its development and codification of the directed commission model in its rulebook and continues to support the model. We recognize that this model has not been recognized in all Canadian jurisdictions and as a result of this IFIC is supportive of working with governments, regulators and stakeholders to develop a permanent incorporation solution.

It is our view that this Consultation Paper is a first step in moving towards a permanent incorporation solution. The three options illustrated are high level summaries of proposed options. There are significant details that will require further research, discussion and analysis. We are prepared to offer industry expertise and resources in developing a solution.

In the meantime, we recommend that the existing directed commission model continue to operate for MFDA dealers and representatives. This model is widely used among many MFDA dealers and

representatives and any change to existing practices will create uncertainty and unnecessary costs and compliance burdens.

Responses to Consultation Questions

1. Should governments allow a broader range of registered dealers and advisers to redirect remuneration to a non-registered corporation?

2. Should governments allow individual representatives of registered dealers and advisers to incorporate?

3. If yes to question 2, which incorporation option would in your view be the most effective and balanced alternative?

We have chosen to answer questions 1, 2 and 3 together as the series of questions best reflects our views on the issue.

IFIC supports the MFDA model of directing commissions to a corporation subject to certain conditions. This model has been in use for several years by MFDA dealers and registered representatives without regulatory or investor protection issues being raised. This model should remain in effect as a permanent solution is pursued. We are not opposed to expanding this model more broadly but practical experience suggests that it is unlikely to be broadly adopted as several Canadian jurisdictions and IIROC do not currently allow its use.

We support legislative changes to allow for individual representatives to incorporate. However this will likely be a lengthy process and in the meantime the existing directed condition model must continue.

In our view, the professional incorporation model is the best model as provinces have the most experience with this form of legislation. Provinces allow doctors, lawyers, accountants, real estate agents, and mortgage brokers to incorporate. Professionals in the securities industry should have the same opportunity to incorporate.

4. Are there other provisions or options that should be considered to ensure that the use of a corporation continues to preserve the registrant-client legal relationship for both firms and individual sales representatives and provides for proper oversight of individual sales representatives by their registered dealer and adviser?

We support reasonable conditions on professional corporations. We are willing to explore options that currently exist for some professions such as restrictions on shareholders, access to books and records and insurance requirements. There is currently a lot of variation between provinces on professional corporation legislation and we would also pursue opportunities to harmonize legislative requirements.

5. Do you have any concerns or comments about potential income tax consequences or regulatory obstacles regarding each option?

We are aware of the tax issues that may arise out of the directed commission model. MFDA dealers that choose to direct commissions to unregistered corporations recommend that registered representatives seek professional tax advice. The other suggested incorporation models do not appear to raise tax issues. There is significant case law on professional incorporation and incorporated insurance agencies.

All three models do not create regulatory obstacles that would impact investor protection. It is our view that the introduction of a permanent incorporation model would supplement existing laws and regulations.

6. Do you have any concerns or comments about the potential impact of the incorporation options on investor protection?


The MFDA directed commission model has been in operation for several years and the MFDA's experience suggests payment of commissions to an unregistered corporation does not create investor protection issues. In addition provincial experience with professional corporations suggests that incorporation does not create consumer protection issues. The expanding scope of professions that have gained access to incorporation also suggests that provinces are not concerned with consumer protection issues through incorporation.

We believe that industry can provide the technical expertise and the resources to assist provincial officials and regulators in finding a permanent incorporation solution. We would be pleased to present our recommendations or discuss any questions you would have on our submission in person or via conference call at your convenience.

If you have any questions, regarding anything in this letter please contact me directly by phone at 416-309-2300 or by email at jdelarentiis@ific.ca or Jon Cockerline, Director, Policy and Research by phone at 416-309-2327 or by email at jcockerline@ific.ca.

Yours truly,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



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